

PILOT PROJECT TO ENHANCE THE COMPETITIVENESS OF THE LIVESTOCK SECTOR

(UR-0137)

EXECUTIVE SUMMARY

Borrower:	Eastern Republic of Uruguay	
Executing agency:	Ministry of Agriculture and Fisheries	
Amount and source:	IDB: (OC)	US\$ 7,700,000
	Local:	US\$ 3,300,000
	Total:	US\$11,000,000
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	30 months
	Disbursement period:	30 months
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	Single Currency Facility in U.S. dollars
Objectives:	The general objective of the project is to introduce and validate new institutional strategies to enhance the competitiveness of the Uruguayan livestock sector through the adoption of innovations by private agents all along the production chain, with emphasis on the incorporation of small- and medium-scale breeders into the innovation process.	
Description:	The project seeks to encourage the formulation and execution of innovative business plans proposed by the private agents in the sector themselves, utilizing various types of partnership arrangements. The project will promote three categories of business plans, which also constitute the three components of the project:	
	<p>a. Innovations in production management at the breeding stage (US\$3.02 million). This component includes the preparation and execution of business plans presented by producers themselves in order to increase the competitiveness of sheep- and cattle-breeding. The plans will have two innovative features: (i) the</p>	

activities proposed under the plan, which will represent innovations in comparison with current practices in the local environment; and (ii) the use of private facilitators as intermediaries in the process.

- b. **Innovations in linking the sheep and cattle production chain** (US\$5.0 million). This component provides for the execution of business plans aimed at enhancing competitiveness through new modalities for integrating the sheep and cattle production chain. A variety of partnerships will be eligible for financing under this component, provided they are based on vertical integration. The partnerships may be established through agreements, contracts, corporations, or other legally valid means of association. Additional incentives will be available for proposals involving small- and medium-scale breeders. The innovative aspect of this component is the negotiation and proposal of horizontal and vertical integration schemes by the private agents themselves.
- c. **Innovations in marketing** (US\$0.5 million). This component will provide support for marketing campaigns included in business plans, whose objective is to position new products on the market or open up new markets at the international level.

**Justification for
an innovation
loan:**

The Bank has made available to Uruguay more than US\$200 million in resources, which have cofinanced investments in the agricultural sector for a total of US\$350 million. Currently in execution are two programs that benefit the livestock subsector: the Dairy Farm Infrastructure Program (914/OC-UR) and the Agricultural Services Program (1131/OC-UR). Although these programs do support the livestock sector, they do not provide direct incentives for the introduction of changes in management and production methods, as does the Program for Farm Modernization and Development (PREDEG, 1063/OC-UR) in the case of fruit and vegetable growers. The experience of PREDEG shows that it is possible to structure specific sectoral programs aimed at boosting competitiveness and that such programs are well received by producers and have significant economic impacts.

The project proposed here will draw on the Bank's institutional experience with instruments designed to enhance competitiveness through the formulation and execution of business plans under various partnership arrangements as yet untried in Uruguay. Although interest exists on the part of the government and cattle and sheep producers, there is no guarantee of demand for a larger-scale program without a prior pilot experience. A small pilot innovation project will make it possible to gain experience in the application of new management strategies in the livestock sector and identify changes to be

implemented in a broader program (livestock program), which will ultimately have a significant impact on the country's economy. The project therefore establishes *direct performance indicators* to measure progress in achieving changes (innovation). The evolution of these indicators will yield lessons that will serve to guide the future development of a larger-scale livestock program. The progress indicators to be used in the pilot project will be: *ratio of total resources mobilized to resources disbursed by the project (annual indicator); number of business plans being executed in a satisfactory manner (annual indicator); cost of executing each business plan (dollars per plan averaged for each component); increase in reproductive efficiency; improvements in managerial practice; improvements in linkage of the chain; improvements in marketing; and impact of dissemination.*

The Bank's country and sector strategy:

The Bank's strategy in Uruguay supports: (i) in the area of **competitiveness and regional integration**, initiatives that enhance competitiveness and increase private sector investment, based on export-oriented production that exploits the country's comparative advantages; (ii) in the area of **modernization of the State and governance**, the State modernization process, with the aim of reducing the State's presence in the economy, increasing its efficiency and efficacy by rationalizing and targeting its interventions, and reducing its influence on national goods and services production; and (iii) in the area of **welfare and social equity**, activities aimed at increasing equity and drawing the most vulnerable groups into the development process and raising living standards.

The project is in keeping with this strategy inasmuch as it seeks to enhance competitiveness through various innovations, using novel approaches from the standpoint of public institutionality and enabling groups of small producers to compete more effectively at the regional level.

Environmental and social review:

The Technical Review Group of the Committee on Environmental and Social Impact (CESI/TRG) reviewed the profile of the operation and made recommendations concerning the design, monitoring, and supervision of the project. Those recommendations were incorporated into the guide for implementation of business plans. Given the characteristics of the livestock sector in Uruguay, in which the majority of producers—and especially small- and medium-scale breeders—graze their animals over large expanses of natural pastureland, the possibilities for intensive use of resources and agrochemicals are much more limited than in other agricultural activities. Therefore, no direct negative impacts on the environment are anticipated. In fact, the development of business plans will afford opportunities to incorporate improvements in environmental

conditions into the production process. From a market standpoint, the Uruguayan livestock sector enjoys a series of environmental advantages that may offer important opportunities in the commercial sphere, such as the production of organic meat. This pilot project will provide a framework for exploring such opportunities.

The guide for implementation of business plans includes, as part of the eligibility criteria and project approval process, procedures for assessing environmental quality and social equity. As part of the monitoring of project execution, the semiannual technical reviews will include a system for monitoring the socioenvironmental aspects of approved business plans. The effective application of procedures for assessing environmental quality and social equity, as well as monitoring and oversight of socioenvironmental aspects of approved projects, will be assured through the inclusion of a socioenvironmental specialist on the staff of the project executing unit (see paragraph 3.24).

Benefits:

The primary benefit will be the increase in the competitiveness of the livestock sector, which will be achieved through two means: (i) successful execution of innovative business plans; and (ii) dissemination of those successes through replication of the plans by others. This enhanced competitiveness will have a dual impact, improving incomes and opportunities for small- and medium-scale breeders, while also generating increased foreign currency earnings in the country. A second benefit will be the institutional innovations introduced under the project, which will make it possible to explore new ways of promoting increased competitiveness based on a simple system of incentives that encourage efficiency from a cost-impact point of view.

Risks:

Aversion to risk: The extent of breeders' resistance to change will be evaluated through this project as one of the lessons it is intended to teach (this will also make it possible to determine the incentive threshold levels necessary to spur a process of innovations).

Resource mobilization: Implementation of the innovative business plans will require the mobilization of additional resources, which is another risk factor to be evaluated under this project. With a view to mitigating possible problems in this area, the project will include a study of possible financial innovations that might facilitate linkages between the livestock sector and capital markets.

Foot-and-mouth disease: An escalation of the recent resurgence of foot-and-mouth disease (FMD) would be damaging from the standpoint of the expectations of the stakeholders, particularly with regard to opening up new markets and raising the value of exports.

The emergency action currently being taken by the government—creating internal barriers within the country and eliminating animals that are shown to have the disease—have allayed the concerns of importing countries. In addition, the Bank, through the Agricultural Services Program (1131/OC-UR) has made available resources to enable Uruguay to maintain its FMD-free status.

**Special
contractual
clauses:**

Conditions precedent to the first disbursement:

- a. the coordinating unit must be up and running, and its staff must be appointed (see paragraph 3.4);
- b. the project oversight committee must also be up and running (see paragraph 3.4);
- c. the monitoring and evaluation system must be implemented, and personnel must be trained to operate it (see paragraph 3.27); and
- d. the institution of the guide for implementation of business plans agreed on with the Bank (see paragraph 3.10).

Other conditions:

- a. within six months following to the effective date of the loan, the operating guidelines for the project coordinating unit must be implemented (see paragraph 3.6); and
- b. semiannual reviews of the operation must be conducted in order to verify the progress achieved (see paragraph 3.25).

**Poverty-
targeting and
social sector
classification:**

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

**Exceptions to
Bank policy:**

None

Procurement:

Current Bank policies, including the procedures indicated in document GN-1679-3, will be applied in the procurement of goods and in contracting for works and consulting services to be financed with project resources. When resources from the IDB financing are used, the minimum amounts for which international competitive bidding will be required will be: US\$350,000 for procurement of goods and US\$200,000 for consulting services.